

businesses but utilities created to serve members of the securities industry for the purpose of providing certain services that are ancillary to the businesses in which industry members compete with one another. Operating a securities depository and securities clearing corporation requires a substantial and continuing investment in infrastructure, including securities vaults, telecommunications links with users, data centers, and disaster recovery facilities in order to meet the increasing needs of participants and respond to regulatory requirements. Both the Boston Stock Exchange in 1981 and the Pacific Stock Exchange in 1987 terminated the operations of their securities depositories and substantially terminated the operations of their securities clearing corporations.

After consummation of the proposed arrangements, securities industry members will continue to have access to high-quality, low-cost depository and clearing services provided under the mandate of the Act. The overall cost to the industry of having such services available will be reduced, thereby permitting a more efficient and productive allocation of industry resources. Furthermore, because most of a depository's and a clearing corporation's interface costs must be mutualized, thereby requiring some participants to subsidize costs incurred by others, CHX's withdrawal from maintaining depository and clearing facilities should reduce costs to participants and thereby remove impediments to competition. Finally, CHX's ability to focus its resources on the operations of its exchange should help enhance competition among securities markets.

(C) Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received From Members, Participants, or Others

Comments on the proposal have not been solicited or received.

III. Date of Effectiveness of the Proposed Rule Change and Timing for Commission Action

Within thirty-five days of the date of publication of this notice in the Federal Register or within such longer period (i) as the Commission may designate up to ninety days of such date if it finds such longer period to be appropriate and publishes its reasons for so finding or (ii) as to which the self-regulatory organization consents, the Commission will:

(A) by order approve such proposed rule change or

(B) institute proceedings to determine whether the proposed rule change should be disapproved.

IV. Solicitation of Comments

Interested persons are invited to submit written data, views, and arguments concerning the foregoing. Persons making written submissions should file six copies thereof with the Secretary, Securities and Exchange Commission, 450 Fifth Street, N.W., Washington, D.C. 20549. Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. § 552, will be available for inspection and copying in the Commission's Public Reference Room, 450 Fifth Street, N.W., Washington, DC. Copies of such filing also will be available for inspection and copying at the principal office of CHX. All submissions should refer to the file number SR-CHX-95-27 and should be submitted by December 22, 1995.

For the Commission by the Division of Market Regulation, pursuant to delegated authority.¹⁰

Margaret H. McFarland.

Deputy Secretary.

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[Release No. 34-36511; File No. SR-MCC-95-04]

Self-Regulatory Organizations; Midwest Clearing Corporation; Notice of Filing of Proposed Rule Change Relating to Midwest Clearing Corporation's Decision To Withdraw From the Clearance and Settlement Business

November 27, 1995.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act"),¹ notice is hereby given that on November 16, 1995, the Midwest Clearing Corporation ("MCC") filed with the Securities and Exchange Commission ("Commission") the proposed rule change as described in Items I, II, and III below, which items have been prepared primarily by MCC. The Commission is publishing this notice to solicit comments on the

proposed rule change from interested persons.

I. Self-Regulatory Organization's Statement of the Terms of Substance of the Proposed Rule Change

The proposed rule change involves proposed arrangements relating to a decision by the Chicago Stock Exchange, Incorporated ("CHX") to withdraw from the clearance and settlement, securities depository, and branch receive businesses conducted through its subsidiaries, MCC, Midwest Securities Trust Company ("MSTC"), and the Securities Trust Company of New Jersey ("STC/NJ").² Parties to the proposed arrangements are The Depository Trust Company ("DTC"), CHX, MSTC, the National Securities Clearing Corporation ("NSCC"), MCC, and STC/NJ. The proposed arrangements as they relate to MCC, would provide for the following:

(1) MCC would cease providing securities clearing services by January 15, 1996.

(2) NSCC would offer MCC participants an opportunity to become NSCC participants if they meet NSCC's qualifications.

(3) Open positions of MCC participants that are or that become NSCC participants and that authorize the transfer of their open positions will be transferred to the books of NSCC.

(4) DTC and NSCC would make certain payments to MCC.

(5) In general, for a period of ten years MCC would not engage in the business from which it has decided to withdraw (i.e., the securities clearing business). However, MCC would be free to provide specified securities clearing-related services and products to CHX members and certain third-parties under certain circumstances.³

The proposed rule change also seeks to modify MCC's By-Laws to reduce the size of its Board of Directors.⁴

II. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

In its filing with the Commission, the MCC included statements concerning

² STC/NJ is a wholly-owned subsidiary of CHX that currently provides certain services, including a securities custody service. STC/NJ is not a clearing agency as defined in the Act and therefore is not required to register with the Commission.

³ A more detailed description of these proposed arrangements is contained in Exhibit 2 to the filing. A copy of the filing and all exhibits is available for copying and inspection in the Commission's Public Reference Room.

⁴ The text of these proposed changes is contained in Exhibit A to the filing. A copy of the filing and all exhibits is available for copying and inspection in the Commission's Public Reference Room.

¹⁰ 17 CFR 200.30-3(a)(12) (1994).

¹¹ 15 U.S.C. § 78s(b)(1) (1988).

the purpose of and basis for the proposed rule change and discussed any comments it received on the proposed rule change. The text of these statements may be examined at the places specified in Item IV below. MCC has prepared summaries, set forth in section (A), (B), and (C) below, of the most significant aspects of such statements.⁵

(A) Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

CHX has determined to close its clearance and settlement and securities depository business in order to focus its resources on the operations of the exchange. The primary purpose of the proposed arrangements is to permit CHX and MCC to achieve this objective while affording MCC participants an opportunity to become NSCC participants. MCC participants, however, would be free to utilize any other service provider of their choosing. This is consistent with the industry's effort to eliminate redundant infrastructure costs associated with operating separate organizations.

The timing of the proposal is related to the industry's planned conversion to same-day funds settlement.⁶ Currently, transactions in equities, corporate debt, and municipal debt are settled in next-day funds.⁷ Transactions in commercial paper and other money market instruments are settled in same-day funds. As the Commission is aware, the registered clearing agencies have been working with the industry over the least few years to develop a system that will provide for the settlement of virtually all securities transactions in same-day funds. These efforts have been encouraged by the Commission, the Board of Governors of the Federal Reserve System, and the Federal Reserve Banks of New York and Chicago, and these plans have been monitored by the staffs of these regulatory bodies.⁸ Under the

conversion plan, all issues currently settling in DTC's next-day funds settlement system will be transferred to DTC's same-day funds settlement system on a single day. Several months ago, an industry consensus was reached that the conversion date will be February 22, 1996. As a result of this scheduled conversion date, CHX and MCC have determined to cease providing securities clearing services by January 15, 1996.

The proposed arrangements should result in substantial savings for the securities industry. In connection with this proposal, former sole MCC participants may become NSCC participants if they qualify or utilize any other clearing service provider. Moreover, clearing interfaces involve the maintenance of substantial facilities, communications networks, and account reconciliation mechanisms. As a result of the proposal, the substantial costs incurred by both NSCC and MCC in operating an interface would be eliminated.

Another purpose of the proposed rule change is to reduce the size of MCC's board of directors. This reduction conforms with the simultaneous reductions in the size of the boards of directors of MSTC and CHX. Because of their withdrawal from the businesses described above, CHX and MCC no longer believe it is necessary to maintain such a large board of directors. As a result, MCC is eliminating of the Participant Governor positions. Those current board members whose slots have been eliminated, however, may serve out the remainder of their terms.

MCC believes the proposed rule change is consistent with the requirements of Section 17A of the Act and the rules and regulations thereunder because the rule proposal will facilitate the industry's conversion to same-day funds settlement for virtually all securities transactions and thereby facilitate the prompt and accurate clearance and settlement of such transactions. The proposal will provide qualified sole MCC participants with access to NSCC's facilities and will be implemented consistently with the safeguarding of securities and funds in MCC's custody and control. In addition, the proposal will foster cooperation and coordination with persons engaged in the clearance and settlement of securities transactions.

(B) Self-Regulatory Organization's Statement on Burden on Competition

MCC believes the proposed arrangements will not impose any burden on competition not necessary or appropriate in furtherance of the purposes of the Act. Securities clearing corporations registered under Section 17A of the Act are not conventional businesses but utilities created to serve members of the securities industry for the purpose of providing certain services that are ancillary to the businesses in which industry members compete with one another. Operating a securities clearing corporation requires a substantial and continuing investment in infrastructure, including telecommunications links with users, data centers, and disaster recovery facilities in order to meet the increasing needs of participants and respond to regulatory requirements. Both the Boston Stock Exchange in 1981 and the Pacific Stock Exchange in 1987 substantially terminated the operation of their securities clearing corporations.

After consummation of the proposed arrangements, securities industry members will continue to have access to high-quality, low-cost clearing services provided under the mandate of the Act. The overall cost to the industry of having such services available will be reduced thereby permitting a more efficient and productive allocation of industry resources. Furthermore, because most of a clearing corporation's interface costs must be mutualized, thereby requiring some participants to subsidize costs incurred by others, CHX's and MCC's withdrawal from maintaining clearing facilities will reduce costs to participants and thereby remove impediments to competition. Finally, CHX's ability to focus its resources on the operations of the exchange should help enhance competition among securities markets.

(C) Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received From Members, Participants or Others

Written comments on the proposal have not been solicited or received.

III. Date of Effectiveness of the Proposed Rule Change and Timing for Commission Action

Within thirty-five days of the date of publication of this notice in the Federal Register or within such longer period (i) as the Commission may designate up to ninety days of such date if it finds such longer period to be appropriate and publishes its reasons for so finding or (ii) as to which the self-regulatory

⁵ The Commission has modified the text of the summaries prepared by MCC.

⁶ The term "same-day funds" refers to payment in funds that are immediately available and generally are transferred by electronic means.

⁷ The term "next-day funds" refers to payment by means of certified check that is for value on the following day.

⁸ In approving certain modifications of DTC's existing system in order to accommodate the overall conversion to same-day funds settlement, the Commission stated that it "believes that the overall conversion to an SDFS system will help reduce systemic risk by eliminating overnight credit risk. The SDFS system also will reduce risk by achieving closer conformity with the payment methods used in the derivatives markets, government securities markets and other markets." Securities Exchange Act Release No. 35720 (May 16, 1995) 60 FR 27360

[File No. SR-DTC-95-06] (order granting accelerated approval to proposed rule change modifying the same-day funds settlement system).

organization consents, the Commission will:

(A) by order approve such proposed rule change or

(B) institute proceedings to determine whether the proposed rule change should be disapproved.

IV. Solicitation of Comments

Interested persons are invited to submit written data, views, and arguments concerning the foregoing. Persons making written submission should file six copies thereof with the Secretary, Securities and Exchange Commission, 450 Fifth Street, NW., Washington, DC 20549. Copies of the submissions, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. § 552 will be available for inspection and copying in the Commission's Public Reference Room, 450 Fifth Street, NW., Washington, DC. Copies of such filing also will be available for inspection and copying at the principal office of MCC. All submissions should refer to the file number SR-MCC-95-04 and should be submitted by December 22, 1995.

For the Commission by the Division of Market Regulation, pursuant to delegated authority.⁹

Margaret H. McFarland,

Deputy Secretary.

[FR Doc. 95-29320 Filed 11-30-95; 8:45 am]

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[Release No. 34-36510; File No. SR-MSTC-95-10]

Self-Regulatory Organizations; Midwest Securities Trust Company; Notice of Filing of Proposed Rule Change Relating to Midwest Securities Trust Company's Decision To Withdraw From the Securities Depository Business

November 27, 1995.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act"),¹ notice is hereby given that on November 16, 1995, the Midwest Securities Trust Company ("MSTC") filed with the Securities and Exchange Commission ("Commission") the proposed rule change (File No. SR-MSTC-95-10) as described in Items I,

II, and III below, which items have been prepared primarily by MSTC. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

I. Self-Regulatory Organization's Statement of the Terms of Substance of the Proposed Rule Change

The proposed rule change involves proposed arrangements relating to a decision by the Chicago Stock Exchange, Incorporated ("CHX") to withdraw from the clearance and settlement, securities depository, and branch receive businesses conducted through its subsidiaries, the Midwest Clearing Corporation ("MCC"), MSTC, and the Securities Trust Company of New Jersey ("STC/NJ").² Parties to the proposed arrangements are The Depository Trust Company ("DTC"), CHX, MSTC, the National Securities Clearance Corporation ("NSCC"), MCC, and STC/NJ. The proposed arrangements as they relate to MSTC would provide for the following:

(1) MSTC would cease providing securities depository services by January 15, 1996.

(2) DTC would offer sole MSTC participations an opportunity to become DTC participants if they meet DTC's qualifications.

(3) DTC and MSTC would cooperate to assure the orderly transfer of securities from the custody of MSTC to the custody of DTC for DTC participants that authorize such transfers.

(4) DTC and NSCC would make certain payments to MSTC.

(5) In general, for a period of ten years MSTC would not engage in the business from which it has decided to withdraw (i.e., the securities depository business). However, MSTC would be free to provide specified securities depository-related services and products to CHX members and certain third-parties under certain circumstances.³

The proposed rule change also seeks to modify MSTC's By-Laws to reduce the size of its board of director.⁴

² STC/NJ is a wholly-owned subsidiary of CHX that currently provides certain services, including a securities custody service. STC/NJ is not a clearing agency as defined in the Act and therefore is not required to register with the Commission.

³ A more detailed description of these proposed arrangements is contained in Exhibit 2 to the filing. A copy of the filing and all exhibits is available for copying and inspection in the Commission's Public Reference Room.

⁴ The text of these proposed changes is contained in Exhibit A to the filing. A copy of the filing and all exhibits is available for copying and inspection in the Commission's Public Reference Room.

II. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

In its filing with the Commission, MSTC included statements concerning the purpose of and basis for the proposed rule change and discussed any comments it received on the proposed rule change. The text of these statements may be examined at the places specified in Item IV below. MSTC has prepared summaries, set forth in section (A), (B), and (C) below, of the most significant aspects of such statements.⁵

(A) Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

CHX has determined to close its clearance and settlement and securities depository businesses it conducts through its subsidiaries MCC, MSTC, and STC/NJ in order to focus its resources on the operations of the exchange itself. The primary purpose of the proposed arrangements is to permit CHX and MSTC to achieve this objective while affording MSTC participants on opportunity to become DTC participants and transfer their securities to DTC. MSTC participants, however, would be free to utilize any other service provider of their choosing. This is consistent with the industry's effort to eliminate redundant infrastructure costs associated with operating separate organizations.

The timing of the proposal is related to the industry's planned conversion to same-day funds settlement.⁶ Currently, transactions in equities, corporate debt, and municipal debt are settled in next-day funds.⁷ Transactions in commercial paper and other money market instruments are settled in same-day funds. As the Commission is aware, the registered clearing agencies have been working with the industry over the last few years to develop a system that will provide for the settlement of virtually all securities transactions in same-day funds. These efforts have been encouraged by the Commission, the Board of Governors of the Federal Reserve System, and the Federal Reserve Banks of New York and Chicago, and these plans have been monitored by the staffs of these

⁵ The Commission has modified the text of the summaries prepared by MSTC.

⁶ The term "same-day funds" refers to payment in funds that are immediately available and generally are transferred by electronic means.

⁷ The term "next-day funds" refers to payment by means of certified check that is for value on the following day.

⁹ 17 CFR 200.30-3(a)(12) (1994).

¹ 15 U.S.C. § 78s(b)(1) (1988).